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C O N F I D E N T I A L SECTION 01 OF 03 THE HAGUE 000002

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SUBJECT: NETHERLANDS: SHELL DISCUSSES BUSINESS IN IRAN

REF: A. STATE 125579
[1](#)B. THE HAGUE 276
[1](#)C. 07 THE HAGUE 935

Classified By: Pol/Econ Counselor Andrew Mann, reasons 1.4 (b),(d)

[1](#)1. (C/NF) SUMMARY: The Dutch government agrees that doing business with Iran poses risks for Dutch companies, and it will continue to discourage new investments there. Shell has again pushed back its investment decision on the Persian LNG project, this time until late 2010. However, Shell's go-slow approach in Iran belies seething frustration at the perceived ineffectiveness of sanctions against Iran. The company sees Iran's nuclear activities continuing while Chinese and other firms seal long-term energy deals in Iran at the expense of Western energy security interests. END SUMMARY.

GONL WARNING DUTCH FIRMS ON RISKY BUSINESS WITH IRAN

[1](#)2. (C) EconOffs delivered ref A points during a December 8 meeting with Simon Smits, Director of Economic Cooperation at the Foreign Ministry. (Note: In summer 2008, Smits, a career diplomat, completed a two-year secondment at Shell where he focused on government relations in the company's hot zones. The secondment was part of an ongoing program in which a Dutch diplomat works at Shell's headquarters in The Hague and a UK diplomat works at Shell's London offices. End note.) Smits reiterated what he had told us before: although Shell maintains a footprint in Iran, the company cares immensely about its reputation and has therefore backed off its Iranian ventures. He added that Shell would never want to jeopardize its huge investments in the U.S. by violating the Iran Sanctions Act, which factors into all its decisions on Iran. As for Philips, Smits was not as familiar with its business interests in Iran but he would be surprised if they were active there. He said the Dutch government repeats over and over to Dutch companies that they must stick to the international regime on Iran. Smits assured us that in light of our demarche and national measures efforts, the Dutch government would continue to exert pressure on the private sector to abstain from clinching new deals with Iran. EconOffs also shared ref A points with Philips and with trade and export control officials at the Ministry of Economic Affairs; reporting on Philips' reaction will follow septel.

SHELL OFFERS DETAILED RESPONSE

[1](#)3. (C/NF) EconOff met December 15 with John Crocker (protect), Shell's Head of International Government Relations, and his colleague Roelof van Ees to discuss ref A points. Crocker, who briefs the Department regularly, stressed Shell's commitment to its international obligations and its opposition to Iran's nuclear activities. He also

described Shell's frustration with the current approach to Iran sanctions, which it sees as both ineffective in stopping Iran's nuclear ambitions and detrimental to Western energy interests.

SHELL: WITHDRAWAL FROM IRAN WILL REDUCE TOTAL OUTPUT

¶4. (C/NF) From Shell's perspective, shutting down completely international oil companies' (IOCs) engagement with Iran's energy sector is counterproductive. Crocker attributed this to the Iranian regime's absolute focus on the short-term, they pay attention to consequences that will hit tomorrow at the latest. Drawing on Shell's experience, he described opposing methods to develop Iran's gas fields. For IOCs, developing a new field today would require a \$10-25 billion investment using advanced technology. This would maximize the field's long-term recovery rate and profitability, but output would be lower in the first decade as a result and the field might not generate positive cash flows until 2025. On the other hand, if the Iranians develop a new field on their own or with a Chinese partner, they will use poorer technology. This would accelerate near-term recovery -- the overriding concern of Iran's leadership -- but limit the field's total output to only 20 percent of recoverable gas reserves.

STATUS OF SHELL'S LNG INTEREST IN IRAN

THE HAGUE 00000002 002 OF 003

¶5. (C/NF) Crocker provided an update on the Persian LNG (PLNG) project in Iran. (Note: Shell has a 25 percent stake in the project, Repsol 25 percent, and National Iranian Oil Company (NIOC) owns 50 percent. End note.) Shell and the other parties signed an initial agreement in 2004. A final investment decision (FID) had been expected at the end of 2006, which then slipped to mid-2008. According to Crocker, Shell's FID is now delayed until late 2010. He said Iran blames the delay on Shell's backtracking for political reasons. Crocker agreed Shell had dragged its feet on purpose but added that Iran bore responsibility for its operational incompetence and its attempts to change the agreement's terms. He said the additional two-year delay from 2008 to 2010 stems largely from changes in how the project's construction will be contracted -- instead of having one large subcontractor build the multi-train terminal, the contract will be split up into several components. Crocker said Shell, Repsol, and NIOC continue to work on the design and evaluation phases of their respective parts of the PLNG project. He said Shell would make its FID in late 2010 taking all factors, including political ones, into account. If the project moves ahead after that point, Crocker said LNG deliveries would commence by 2015-16 at the earliest.

SHELL DISMISSIVE OF CATALYTIC CONVERTER THREAT

¶6. (C/NF) Crocker was skeptical that the supply of catalytic converters to Iran's refineries was a significant issue. He was unaware of Shell's sales of catalytic converters in Iran. He said the U.S. should know that it is not in the regime's interest to upgrade its refineries, as well-placed individuals profit handsomely from the export of Iranian crude oil at market prices and re-import of refined products at heavily subsidized rates. Crocker suggested that because of this lucrative arbitrage scheme, it was in the interest of Iran's rulers for the refining sector to remain incompetently managed.

SHELL'S FRUSTRATIONS IN IRAN

¶17. (C/NF) Crocker vented several frustrations Shell has concerning Iran's behavior and the international sanctions against it:

-- Iranian Indecision: Crocker said the Iranians are not clear on what they want for their natural gas; their strategy depends on whom one speaks with in Tehran. Some key officials want to export LNG, others want to export gas via pipeline, and others still want to keep all the gas for future domestic use. He said this internal confusion created an uncertain environment for IOCs.

-- Double Standard for China: Crocker said Shell was dismayed by the lack of U.S. government criticism of China after Sinopec signed its 2007 deal with Iran to develop the Yadavaran field. According to Crocker, this underscored Shell executives' fear that western IOCs will get shut out of Iran long-term to the benefit of Chinese, Russian, and even Indian firms who disregard American and European pressure and make lucrative investments in Iran's energy sector with impunity. He claimed that Tehran was crawling with Chinese eager to do business with Iran.

-- Level Playing Field: Crocker said Shell would welcome another UNSC Resolution on Iran that levels the playing field by imposing broader trade sanctions on Iran and forcing Chinese and Russian firms to comply. In Crocker's view, this would be more effective than just targeting the finance and energy sectors in bringing pressure against the Iranian regime and it would also reduce the IOCs' competitive disadvantage.

-- U.S. Holds the Key: Crocker lamented that P5-plus-1 overtures would not be attractive to Iran unless they included the carrot of a clear timetable for better relations with the U.S. He said the Iranians don't want better relations with Europe, nor do they want ten years of talks with the U.S.

¶18. (C/NF) Despite Shell's fraught experience in Iran, Crocker concluded this has not deterred the company from a long-term presence there. He compared Iran to Venezuela, Russia, Nigeria, and Iraq -- other potentially unstable and dangerous places where Shell and other IOCs do business.

THE HAGUE 00000002 003 OF 003

¶19. (C/NF) Biographical Note: Crocker worked with the UK Foreign and Commonwealth Office for several years, mainly in the Middle East, before moving to Shell ten years ago. He gained operational experience managing Shell's business in Oman before coming to headquarters to oversee government relations.

COMMENT

¶10. (C/NF) In our dialogue with the Dutch government and private sector on finance and trade measures to combat Iran's nuclear activities, they express frustration that international sanctions are only as strong as their weakest link, i.e., Russia, the Gulf states, and -- especially -- China. The Dutch think they are doing their fair share to implement sanctions effectively (and they see far higher trade volumes with Iran coming from Germany, Italy, and France). The Dutch will continue to be a dependable partner on Iran sanctions, but excluding them from the national measures dialogue (as occurred in early December) undercuts their ability to support our position on a bigger stage. END COMMENT.

